The Best Way to Use Virtual Data Rooms for Startups

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Virtual data rooms (VDRs) are typically used for [M&A transactions](#) and the due diligence process, streamlining the collaboration and sharing of sensitive information. However, businesses slowly began using VDR software for other purposes, one of which includes fundraising for startups. Whether you're identifying the opportunities and risks of your business, working with investors or executing your strategic goals, as a startup, you need to be able to share and review confidential information quickly and securely.

In order for startups to succeed, they must do two things: raise funds and grow quickly. Startups have a lot to think about when they enter the fundraising phase of their business, especially as investors will want to go through a due diligence process. Although the due diligence process varies by industry, it may include the sharing of corporate documents, financial statements, information about customers and suppliers, and sensitive intellectual property. If this information falls into the wrong hands, it could be detrimental to the growth of the startup business.

Startups that aren't already using a VDR should consider upgrading their current file storage system, such as Google Drive, to a secure virtual data room. Not only are they an invaluable tool for businesses that need to collaborate effectively and hit desired goals, but a VDR is also a worthwhile solution to maximise the transaction value of raising funds.

What is a virtual data room?

A [virtual data room](#) is a secure location where sensitive information can be stored and shared with potential investors, without the risk of a data leak. Investors will expect a virtual data room, particularly for the due diligence process, as they will need to review confidential company documentation, such as financial documents. Virtual data rooms minimise the risk of proprietary information being leaked when shared with multiple parties.

A VDR is one of the hallmarks of a well-structured and organised company, and startups benefit immeasurably from having a way to tell their story with the data to back it up. Virtual data rooms are a crucial component of a startup's fundraising effort. Investing in startups can potentially be high-risk and investors do not want any unpleasant surprises after deciding to invest in the company. If the information required isn't readily available, the due diligence process can be prolonged unnecessarily and investors may decide to pull out.

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Why does a startup need a virtual data room?

Forward-thinking startups will adopt VDRs from the very beginning - as soon as the company is operational, in fact. An organised VDR can benefit startups significantly by impressing potential investors. But why exactly do startups need a VDR? There are several reasons why startups should invest in a VDR, including:

- Focuses efforts and improves organisation
- Improved perception of your company to investors
- Protects data with auto-redaction
- Identifies engaged parties with real-time reporting
- Helps with the due diligence process
  - Makes the process easier for investors
  - Speeds up the fundraising process

Focuses efforts and improves organisation

Putting together a data room for startups instantly force the company to see things through an investor's eyes. The process will enable startups to document parts of the business that previously didn't exist on paper, such as customer acquisition plans and product development. Going through this process can help startups focus their efforts while improving the overall organisation of the business.

Virtual data rooms create a centralised corporate repository - a single source of truthful information for investors. By continually updating the repository, it allows the business to remain deal ready at all times, which is especially helpful when receiving pre-emptive approaches, for example.

Improved perception of your company to investors

Demonstrating the value of the business is generally straightforward for large companies, but for start-ups, it can prove to be a very difficult task. Virtual data rooms are a crucial component in improving the company's perception to investors. Before a deal can be closed, investors must get inside the business and understand the opportunity available; VDRs enable investors to scrutinise valuable company data more closely.

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Protects data with auto-redaction

Protecting data is vital for start-ups during the crucial fundraising stage and VDRs provide the ability to protect your data from a data privacy and IP standpoint. Auto-redaction allows you to redact sensitive information that is critical to the success of your business, safeguarding against compliances such as GDPR in-house. In addition, VDRs also give you complete control over the level of access to your sensitive IP.

Identifies engaged parties with real-time reporting

Real-time reporting provides full analytical data of every keystroke and click by the buy-side for your working party. Virtual data rooms allow management teams to focus on who is truly engaged with tailored follow-ups.

Helps with the due diligence process

Virtual data rooms for startups contain all the documentation needed to showcase the robustness of the business and its potential. And, if done correctly, a VDR helps present a compelling picture of the company backed by accurate data, enabling investors to complete their due diligence and come to an informed conclusion.

The due diligence process involves a lot of moving parts, so it's imperative that startups are organised from the beginning. A well-structured VDR means that the process will be quicker and less problematic. It also means that mission-critical documents, such as customer contracts, will be accessible in one place and are less likely to be lost.

Makes the process easier for investors

Startups don't have the history that their mature counterparts do, which is why investors tend to scrutinise company documentation more thoroughly for early-stage businesses. With a well-organised VDR, startups can make the process a lot easier for investors by having all the information they need in one place.

Before even considering raising funds, it's important that startups set up a well-structured VDR with all the company's critical information. This will save countless headaches for both the business and the investors. Sophisticated investors expect to see an advanced and robust file sharing tool.

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Speeds up the fundraising process

Having an investor data room can speed up the fundraising process significantly. When startups try to raise venture capital, investors will need to see all historical documentation as this will help them make an informed decision. However, some investors disagree that VDRs help to speed up the fundraising process, claiming that the time could be better spent growing the startup instead.

Auto-indexing features will enable investors to find the right files more easily, and if there are a lot of documents to upload, the drag-and-drop and bulk upload features will reduce the time it takes to upload the files. Creating multiple data rooms for different stages of the fundraising process can also save valuable time allocating access rights to different files.

What to include in your startup data room

Figuring out what should be included in a virtual data room for startups can be challenging. Include too little and investors won't be equipped with the information they require. Include too much and investors may become overwhelmed with data.

Here's a list of information that you might want to include in your startup data room.

Company documentation

- Board of directors' materials
- Board consents and actions
- Board meeting minutes
- Branding guidelines
- Competitive analysis
- Customer contracts
- First refusal and co-sale agreements
- Investor rights agreements
- Investor updates
- Legal disputes, past and present
- Market research
- Marketing materials
- Office lease
- One-page business plan
- Partnership agreements
- Pitch deck
- Restated articles of incorporation
- Sales process
- Shareholders' agreement
- Voting agreements

Employee documentation

- All employee contracts past and present, including titles and salaries
- All intern contracts past and present
- All consultant contracts past and present
- List of employees, job titles, and salaries

Investors would benefit from seeing the vision for the team the startup is in the process of building. Giving investors an insight into the hiring process and company culture, by including onboarding documents, can also strengthen the fundraising process.

Financial documentation

- Audited accounts
- Asset register
- Capitalisation table
- Details of previous raises
- Financial projection
- Management accounts
- Profit and loss statements
- Pro-forma statements for the next year

Intellectual property

- Domain name ownership
- Granted and filed patents
- List of any open-source software
- IP strategy
- Software license details
- Trademarks

Technology

- API documentation
- Details of any large integrations
- Product backlog export and release map
- Screenshots of existing products
- System architecture diagram

Including in-depth information is an excellent starting point for the investor, as it demonstrates that the startup is transparent and trustworthy.

Invest in your startup's future with DFIN

Securing funding as a startup is as crucial as every piece of information that is shared with investors. Upon first impression, a startup may initially look like a worthwhile investment - it's only when investors dig deeper that they uncover the information they need to make an informed decision.

For startups to put their best foot forward, all company data should be organised and structured in a secure VDR to ensure the due diligence process runs smoothly. [Venue®](#) is an award-winning virtual data room trusted worldwide by investors and Silicon Valley startups.

Discover how Venue® can accelerate your fundraising process and [book a demo](#) today.

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